



# The POWER of the PURSE

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*How Investors Can Restore Integrity  
to Our Financial Markets*



PHIL ANGELIDES  
CALIFORNIA STATE TREASURER  
2002



## PHIL ANGELIDES

TREASURER  
STATE of CALIFORNIA

Dear Friend:

Throughout the course of this year, we have seen the integrity and stability of our financial markets buffeted by revelations of corporate malfeasance, deception, and fraud. Virtually every day for months, a new, shocking story of impropriety has come to light. Too many corporate officers and directors, financial consultants, accounting firms, and investment banks have been caught up in scandal. The systemic breakdown in ethics and standards of conduct has shaken the very foundations of our financial institutions, damaged our economy, and harmed millions of Americans.

Restoring the public's faith in our financial system is critical to our sustained economic prosperity. Our willingness to invest in the future is predicated on the belief that our financial markets operate with integrity, transparency, and fairness—a belief that has been severely tested in the past year.

As the State's chief investment officer, and as a trustee of over \$270 billion in state pension and taxpayer funds, I am deeply committed to safeguarding the public treasury; protecting pensioners, families, and taxpayers; and restoring the faith and confidence of investors. That is why I have taken an active role in advancing corporate reform—using the power of California's considerable investment portfolio and market presence to combat corporate fraud and abuse and to set new standards of integrity and corporate responsibility.

Our office has told investment banks and money managers that they must meet tough conflict of interest and disclosure rules or risk losing the right to do business with the State. We have banned investments in, and business dealings with, expatriate U.S. companies that relocate—in name only—to tax havens such as Bermuda and the Cayman Islands to avoid taxes and weaken shareholder rights. We brought together pension and investment officers from 14 states, responsible for managing over \$1 trillion in assets, to collectively push for needed reforms. And, we will continue to take action to help renew the faith of investors in the integrity of our financial markets.

*The Power of the Purse: How Investors Can Restore Integrity to our Financial Markets* outlines the principles that are guiding our efforts to promote reform and details some of the steps which we have already taken to translate principles into action. It represents our commitment to ensure that California plays its rightful role in restoring integrity and accountability to the financial framework so necessary for our future economic prosperity. Most importantly, it is a call to action for investors across the nation to use their market strength as a weapon for corporate reform.

To achieve lasting reforms and long-term market stability will require a sustained effort by public and private sector leaders in the months and years ahead. Our office intends to continue to wield “the power of the purse” to help ensure that worthy reforms become the new realities of the financial marketplace.

We look forward to working with you and others to advance the cause of reform and economic progress.

Sincerely,

PHIL ANGELIDES  
State Treasurer

# The POWER of the PURSE

## *How Investors Can Restore Integrity to our Financial Markets*

Not since the days of the Robber Barons of a century ago, or perhaps the dark days following the stock market crash of 1929, has America seen its financial institutions so heavily battered by revelations of corporate malfeasance, deception, and fraud.

Mark Twain once said, "History does not repeat itself, but it rhymes." Although the scandals that have come to light over the past year differ in detail from those at the beginning of the 20th Century and those that contributed to the crash of 1929, the results are similar. Insiders were profiting while small investors were sustaining losses, corporate officers were receiving outsized compensation while their firms were going bankrupt, and overleveraged companies were falsifying their accounting to mislead unwary shareholders. In that sense, recent events "rhyme" with those of the past.

*Restoring integrity  
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Just as it has in the past, this spate of corporate scandals has had a profound effect on our economy. Trillions of dollars have been lost in the stock market. Too many families and pensioners have seen their savings and retirements wiped out. Responsible, honest companies across the nation have been hurt by unscrupulous corporate renegades. The confidence of investors has been severely shaken. And, the economy and our financial institutions have been weakened by a pernicious infection of greed and dishonesty.

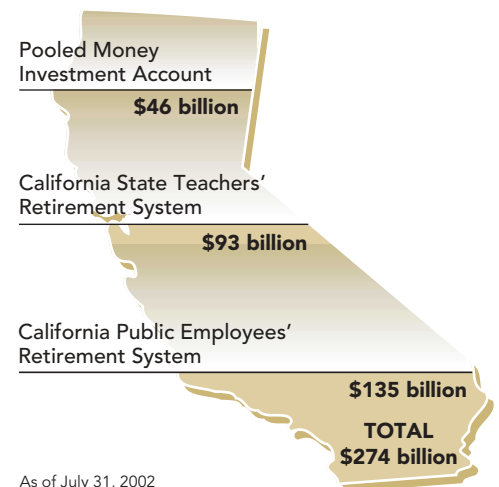
Restoring integrity and accountability to our financial system and instilling a new ethos of corporate responsibility are matters of critical importance to our sustained economic well being. Our economic strength of today and tomorrow is dependent on the willingness of individual and institutional investors to take prudent risks by investing in markets that they believe are operated with openness and integrity and in companies managed responsibly and honestly.

As the fifth largest economy in the world, California has an abiding interest in ensuring that the nation's financial system

commands the confidence of investors around the world. California's economic growth has been fueled by investments in new enterprises and new technologies—with investors willing to take ample business risks in the framework of trusted financial markets. And, the State, through its \$270 billion pension and investment portfolio, is one of the most significant shareholders and investors in the American and global economies—with much at stake for California pensioners and taxpayers.

The financial crisis resulting from the breakdown in ethics and accountability has had a dramatic impact on California, as it has on the nation as a whole. The FBI has reported that

### **The Golden State is a Major Investor and Shareholder in the American Economy**



*...no reform effort will be complete unless the owners of American corporations—institutional and individual shareholders alike—also commit themselves to exercising the power of the purse to bring about a new era of corporate responsibility.*

the money stolen from every bank robbery in America between 1996 and 2000 totaled \$204 million. But in less time than it would take to pull a bank heist, WorldCom's accounting fraud cost California's teacher and public employee pension systems over \$850 million. While the State's pension funds remain well funded, it is clearly in the interest of the funds and all Californians to restore the market stability and investor confidence so necessary for long-term economic growth.

Renewing public trust in corporate America and in the nation's financial institutions will require the full commitment of public and private sector leaders in the months and years ahead. It will require constant vigilance to ensure that new standards of ethical conduct are ingrained in the nation's business practices. And, it will require a multi-pronged effort across a broad front to change the underlying culture which gave rise to the crisis at hand.

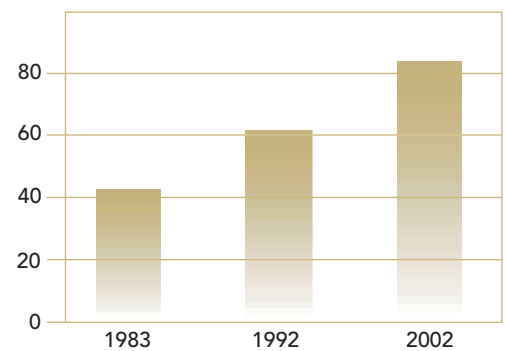
Central to this commitment must be the reestablishment of a federal regulatory and enforcement system which ensures that the financial markets function in the public interest. Recently enacted federal legislation and regulations are clearly key components in restoring the confidence of investors. For this reason, over the course of the past several months, California State Treasurer Phil Angelides has actively supported key legislative initiatives on corporate reform such as United States Senator Paul Sarbanes' legislation, the Public Company Accounting Reform and Investor Protection Act of 2002, which was signed into law in July 2002.

However, no reform effort will be complete unless the owners of American corporations—institutional and individual shareholders alike—also commit themselves to exercising the power of the purse to bring about a new era of corporate responsibility.

A renewed era of activism by America's investors is fundamentally important given the new contours of our financial markets. In the 1990s, the public equity markets witnessed remarkable growth and change. Corporations enjoyed unprecedented access to capital. There were over 2,800 stock offerings from 1995 to 1999. By January 2002, more than 84 million Americans from all walks of life owned stock, up from just over 42 million individuals in 1983. And, as of 2001, institutional investors such as pension funds and mutual funds owned approximately 46 percent of the nation's publicly-traded equities.

Individual and institutional investors represent an important, potential force for constructive change in the ethics and accountability of our financial institutions. Over 200 years ago, an Irish patriot named John Philpot Curran said, "Eternal vigilance is the price of liberty." American investors should paraphrase that aphorism by declaring: "Eternal vigilance is the price of a sound economy." Investors must help ensure that new standards of corporate and financial responsibility are firmly woven into the fabric of the nation's business practices. To accomplish this end, the age of investor complacency must be replaced by a new era of investor democracy.

**84 Million Americans Owned Stock in 2002 Compared to 42 Million in 1983**



Source: Investment Company Institute

California, with its significant pension and investment portfolio, has a special obligation and opportunity to be a leading force for change as the nation struggles to regain its financial footing. The State's pension funds have played an important role in the past in promoting corporate governance reform. Yet, the magnitude of the present crisis demands a heightened level of engagement by all investors.

That is why California State Treasurer Phil Angelides

has stepped forward during these critical times to advance an agenda of corporate reform—using California's significant market presence to help restore integrity and accountability to the marketplace.

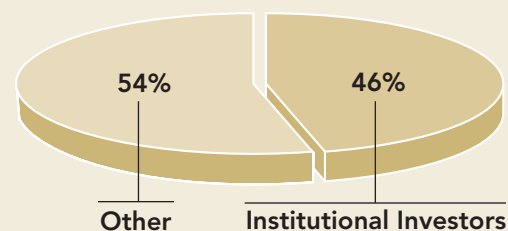
As the State's chief investment officer, the Treasurer sits on the Boards of the California Public Employees' Retirement System (CalPERS), the largest public pension fund in the country with approximately \$135 billion in assets, and the California State Teachers' Retirement System (CalSTRS), the nation's third largest public pension fund with approximately \$93 billion in assets (as of July 31, 2002). The Treasurer is also responsible for managing the Pooled Money Investment Account (PMIA), with approximately \$46 billion in

taxpayers funds on hand (as of July 31, 2002), and for overseeing bond and debt issuances on behalf of the State—which are expected to exceed \$30 billion in 2002. These financial roles afford the California State Treasurer's Office with the opportunity to influence business practices and corporate governance in a way which benefits the economy, pensioners, and taxpayers.

*The Power of the Purse: How Investors Can Restore Integrity to our Financial Markets* outlines the principles which the California State Treasurer's Office believes must be at the center of an emboldened investor movement. These principles are based on a simple premise: that investors can use their market force to restore integrity to our financial system if they are willing to mobilize and take strong action in the cause of corporate reform.

The principles contained in *The Power of the Purse* are guiding the efforts of the Treasurer's Office to promote reform and have been the basis for the actions that the office has taken to

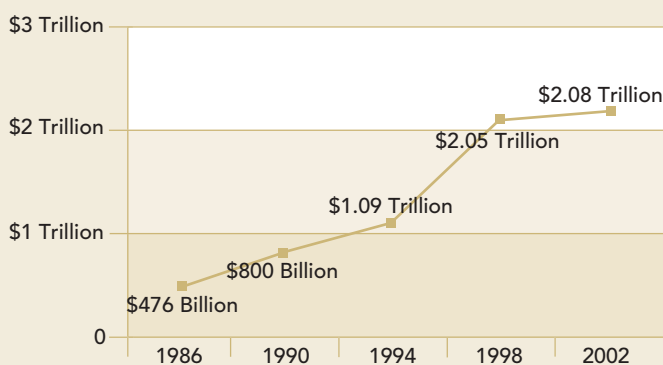
### Institutional Investors Own 46% of All U.S. Stock



Source: Investment Company Institute

*...investors can use their market force to restore integrity to our financial system if they are willing to mobilize and take strong action in the cause of corporate reform.*

### U.S. Public Pension Fund Assets Quadruple from \$476 Billion to Over \$2 Trillion



Source: Federal Reserve, Flow of Funds Accounts of the United States



date. They represent the Treasurer's commitment to ensure that California plays its rightful role in promoting corporate responsibility and restoring accountability and integrity to our nation's financial framework.

These principles are guideposts for a new era of investor engagement—they are not meant to be a substitute for ongoing corporate governance reform efforts or the enactment and enforcement of needed laws and regulations. Indeed, investors must remain committed to bringing about the structural changes needed to ensure responsible governance of America's corporations and must remain vigilant to ensure that federal regulators do their part to uphold the highest standards of conduct in the marketplace.

The Treasurer's Office calls on investors from across the nation to take the actions embodied in the principles outlined below.

### ■ *Demand Ethical Conduct*

Investors—particularly institutions such as pension funds—must use their market strength to demand the highest standards of ethical conduct and transparency. Significant investors must make it clear that they expect those with whom they do business—such as investment banks, money managers, financial consultants, and accountants—to meet the rigorous standards of conduct required to restore confidence in the operation of our financial institutions. They must embrace the commonsense practice of transacting business only with companies known for their honest dealings. Consequences for poor corporate behavior and ethical lapses will result in reforms in the marketplace.

To put this principle into practice, in July 2002, Treasurer Angelides joined New York State Attorney General Eliot Spitzer, North Carolina Treasurer Richard Moore, and New York State Comptroller Carl McCall in adopting a set of Investment Protection Principles which require investment banks and money managers to meet new standards of disclosure and eliminate their conflicts of interest or risk losing the right to do business with their states. At the Treasurer's urging, these principles have since been adopted by both CalPERS and CalSTRS, among others.

*Shareholders should start acting like the owners they are.*

### ■ *Act Like Owners*

Shareholders should start acting like the owners they are. They must make the most of the voting power that they have today while they mobilize to strengthen their rights to have a meaningful say in the companies they own. Shareholders can organize to dump an incompetent, self-serving, or corrupt board of directors, or reject a stock option plan that serves only the interests of corporate executives. But to do so, they must be willing to do the work that democracy requires, namely, to organize effectively to translate votes into real corporate reform. While shareholders inevitably will not agree on every issue, they must work to find common ground to take actions which reverberate through the marketplace and change the discourse in corporate boardrooms across the country.

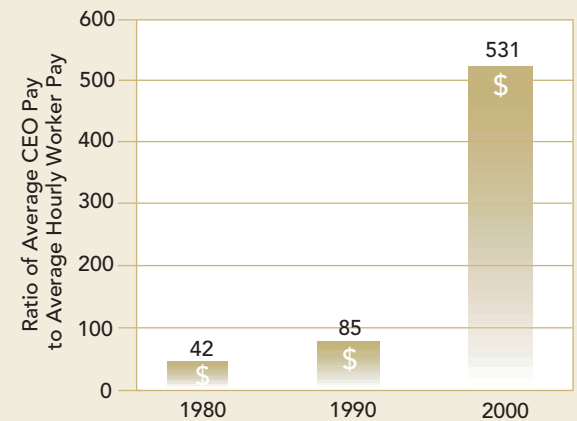
The California State Treasurer's Office is committed to working with other institutional investors to mobilize in the cause of corporate democracy. In this vein, Treasurer Angelides co-convened an "Investor Summit" of public financial leaders from 14 states, responsible for the investment of more than \$1 trillion in assets, to develop an agenda for common action. At this meeting, held in August 2002, the group vowed to work collectively to expand the drive for improved corporate accountability.

## ■ *Reward Value, Not Greed*

Our free enterprise system is at its best when it fosters innovation, productivity, and broad participation in economic progress. Shareholders must be willing to support corporate compensation policies which reward dynamism, performance, and the creation of long-term value. But, that is different than sanctioning a culture of greed.

According to Business Week, the average CEO of a major corporation made 42 times the average hourly worker's pay in 1980, 85 times the average hourly worker's pay in 1990, and a staggering 531 times the average hourly worker's pay in 2000.

### Average CEO Pay Skyrockets to 531 Times that of Average Workers



Source: Business Week annual executive pay surveys

Shareholders have an obligation to restore rationality to the realm of executive pay—rewarding effective corporate leadership, while curbing excesses which undermine the enduring strength of the American economy and jeopardize the faith of the investing public in the fairness of the marketplace.

## ■ *Pursue New Investment Strategies*

Pension funds and other institutional investors need to rethink the passive investment strategies which they have employed for years. Many institutions, in effect, replicate the stock indexes to diversify their risk. But it is now clear that some companies are dealing from a stacked deck. Institutional funds need to embrace more active forms of portfolio management to respond to the challenges posed by the changed investment environment in which they are operating.

In asset classes such as real estate and private equity, investments are made only after the completion of significant due diligence in which the investment strategy as well as the competence and integrity of the proposed investment partners are fully vetted. While it is not possible to take the identical approach to investment in public equities, institutional investors must examine innovative strategies that protect their interests from corporate malfeasance and that alert public companies to the fact that they are more thoroughly examining the companies in which they hold a stake. And, investors must be willing to cease investments in companies resistant to reform.

## ■ *Send a Message: Company Conduct Counts*

Investors need to send a clear message: company conduct counts. Too often, institutional investors have tried to construct a wall between their investment decisions and corporate responsibility. Yet, in doing so, they ignore the relationship between good corporate citizenship and good investments. Indeed, company executives who relocate offshore to avoid taxes or bend environmental laws or exploit their workforce would not think twice about enriching themselves while shortchanging their

*...company executives who relocate offshore to avoid taxes or bend environmental laws or exploit their workforce would not think twice about enriching themselves while shortchanging their shareholders.*

*Quarter-by-quarter expectations need to be replaced by shareholder and management commitment to the creation of true wealth over the long term.*

shareholders. The California State Treasurer's Office already is setting an example by prohibiting business dealings with expatriate U.S. corporations that relocate offshore—in name only—to dodge taxes and escape legal protections for shareholders.

#### ■ *Reward the Creation of Long-Term Value*

Investors need to help good companies do the right thing. For example, they must encourage people of proven integrity to serve on corporate boards, and compensate them appropriately. Most importantly, shareholders should stop demanding short-term results at the expense of all else. They should reward executives and workers for sustained performance. Quarter-by-quarter expectations need to be replaced by shareholder and management commitment to the creation of true wealth over the long term.

## CONCLUSION

Investors can and must play a pivotal role in renewing faith in our financial system. Without their full commitment, there can be no systemic reform and lasting change.

Investors cannot prosecute company executives who break the law. But they can make it clear that they will not tolerate corporate malfeasance and that they will not countenance those who violate the ethical standards that are the basis of an economy of enduring strength. Investors, large and small alike, from across the country, must join in a new era of investor democracy and action.

American investors must be prepared to do their part to rid the markets of dishonesty and greed, and to restore an open, fair, and free economy that has always been part of our national heritage. Only then can we renew the faith in our financial system and sustain America's economic success into the 21st Century.



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## Actions taken to date by California Treasurer Phil Angelides to use the “power of the purse” to restore integrity to our financial markets...

- July 1, 2002 **Investment Protection Principles.** Treasurer Angelides joined New York Attorney General Eliot Spitzer, North Carolina Treasurer Richard Moore and New York Comptroller Carl McCall in adopting a set of Investment Protection Principles which require investment banks and money managers to meet new standards of disclosure and eliminate their conflicts of interest or risk losing the right to do business with their states. At the Treasurer’s urging, these principles were also adopted by the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS).
- July 25, 2002 **Corporate Expatriation.** The Treasurer has prohibited investments in, and business dealings with, expatriate U.S. corporations that relocate offshore – in name only – to avoid taxes and weaken legal protections for shareholders.
- August 12, 2002 **Investor Summit.** Treasurer Angelides co-convened an Investor Summit of public financial leaders from 14 states, responsible for the investment of more than \$1 trillion in assets, to develop an agenda for common action. At the meeting, the group vowed to work collectively to expand the drive for corporate accountability.
- October 2, 2002 **Mutual Fund Proxy Voting.** At the Treasurer’s urging, CalSTRS voted to make its proxy policies and votes public on its web site; urged its money managers to disclose their proxy policies and votes; and urged the Securities and Exchange Commission (SEC) to adopt strong regulations requiring disclosure of proxy votes by mutual funds. Also at his urging, in November, CalPERS took similar action with regard to its money managers and the SEC.
- October 15, 2002 **Executive Compensation.** CalPERS approved the Treasurer’s proposal to co-sponsor with Amalgamated Bank a shareholder resolution at General Electric urging the company to link executive pay to performance.
- October 24, 2002 **Enforcement of Investment Protection Principles.** The Treasurer’s Office completed its initial review of investment banks; notified 22 banks that their level of compliance was unacceptable; and set a January 15, 2003 deadline for full compliance. One firm, HSBC, was notified of the Treasurer’s intent to suspend them for noncompliance with the Principles, making it ineligible to do business with the State’s \$50 billion investment pool. HSBC responded by agreeing to fully comply with the principles.
- Nov. 18, 2002 **Shareholder Resolutions to Corporate Expatriates.** CalPERS, at the request of Treasurer Angelides, launched a drive against the deceptive practice of corporate expatriation, voting to spearhead shareholder resolutions at McDermott International, Tyco International and Ingersoll-Rand urging them to repatriate. In December, CalSTRS took similar action with respect to Tyco and Ingersoll-Rand.
- December 5, 2002 **Removal of expatriate corporations from S&P 500 Index.** The Treasurer initiated a national effort by major institutional investors to urge Standard & Poor’s to remove offshore companies, including six corporate expatriates, from the S&P 500 Index, which S&P describes as the “premier index for large cap U.S. stocks.” Nine state finance officials, and leading national labor officials joined this effort.

# INVESTMENT PROTECTION PRINCIPLES

*Institutional Investors Use Market Strength to Demand New Standards of Accountability*

On July 1, 2002, Treasurer Angelides joined with New York State Attorney General Eliot Spitzer, North Carolina Treasurer Richard Moore, and New York State Comptroller Carl McCall in adopting Investment Protection Principles which require investment banks and money managers to meet new standards of disclosure and conduct or risk losing the right to do business with their states.

*"By using their market power to change the way that Wall Street does business, Treasurer Moore, Comptroller McCall and Treasurer Angelides will be helping to protect investments of every person in America who owns even a single share of stock."*

*"These are consumers of services who are demanding that their suppliers live up to certain standards. This is what the marketplace should be all about."*

*Eliot Spitzer  
New York Attorney General*

This initiative came in the wake of Attorney General Spitzer's efforts to curb troubling Wall Street practices which have shaken the faith of investors in the integrity of the financial marketplace. Spitzer's revelations of Merrill Lynch research analysts who publicly touted the stocks of Merrill Lynch investment banking clients while privately spurning the same investments in internal e-mails led to a landmark settlement between the Attorney General's office and Merrill Lynch. The settlement, which served as the basis for the Investment Protection Principles, set out a series of reforms to investment banking practices designed to restore investor confidence.

In calling on investment banks and money managers to adopt the Principles, Treasurer Angelides and his colleagues used their market strength to make it clear that investors have a right to expect the highest standards of conduct from those with whom they do business.

At Treasurer Angelides' request, the California Public Employees' Retirement System and the California State Teachers' Retirement System also adopted the Investment Protection Principles. To date, the Investment Protection Principles have been adopted by, among others, the states of California, New York, North Carolina, Florida, Michigan, and Oregon.

## The Sacramento Bee

July 2, 2002

**State tightens rules on fraud**

**Clean up your act or lose our business, Angelides warns**

Declaring war on corporate fraud and deception, California Treasurer Phil Angelides on Monday called on investment banking firms and money managers to follow new conflict-of-interest guidelines or face the loss of billions of dollars in government investment business.

## San Francisco Chronicle

July 2, 2002

**States' ultimatum to investment houses -- California, New York, North Carolina say play by new rules or lose our billions in business**

California and New York — two of Wall Street's most powerful investors — teamed up with North Carolina on Monday to impose strict conflict-of-interest rules on investment houses that do business with taxpayers and public pensions.

## The Washington Post

July 2, 2002

**3 States to Attack Conflicts of Interest in Pension Funds**

In an effort to scrub out conflicts of interest on Wall Street, officials from New York, California and North Carolina announced today that they will demand that money managers of their states' pension funds adhere to new ethical guidelines to win their business.

## San Francisco Chronicle

July 11, 2002

**The power of the purse**

Angelides and some of his counterparts in other states...should be commended for taking steps now to protect these public treasuries by forcing reforms that will benefit all investors.

# INVESTMENT PROTECTION PRINCIPLES

*Institutional Investors Use Market Strength to Demand New Standards of Accountability*

The Investment Protection Principles, as adopted on July 1, 2002, set out standards to be met by investment banks and money management firms doing business with the State Treasurer of California, the State Treasurer of North Carolina, and the Comptroller of the State of New York. These state officials pledged that, in retaining or hiring investment banks and money managers, they would give significant consideration to whether such financial organizations had adopted the Principles. The Principles set out the following obligations, among others:

## I. Investment banks

- Sever the link between compensation for analysts and investment banking
- Prohibit investment banking input into analyst compensation
- Create a review committee to approve all research recommendations
- Require that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination
- Disclose in research reports whether the firm has received or is entitled to receive any compensation from a covered company over the past 12 months
- Establish a monitoring process to ensure compliance with the principles

## II. Money management firms

- Disclose client relationships, including management of corporate 401(k) plans, where the money management firm could invest state or pension fund moneys in the securities of a client.
- Disclose the manner in which portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients.
- Disclose the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the Investment Protection Principles.
- Adopt safeguards to ensure that client relationships of any affiliate company – including banks, investment banks, insurance companies or other financial services corporations – do not influence the firm's investment decisions. Firms shall provide the state investment officers with a copy of the safeguards plan and shall certify annually that the plan is being fully enforced.
- In making investment decisions, consider the quality and integrity of a company's accounting and financial data, as well as whether the company's outside auditors also provide consulting or other services to the company.
- In deciding whether to invest state or pension fund moneys in a company, consider the corporate governance policies and practices of the company.

***Adopted on July 1, 2002 by:***

***California State Treasurer Phil Angelides***

***New York Comptroller Carl McCall***

***North Carolina Treasurer Richard Moore***



State of North Carolina



State of New York



State of California



# CALIFORNIA TAKES AIM AT CORPORATE EXPATRIATES

A growing number of companies are avoiding taxes and weakening legal protections for shareholders by relocating offshore – in name only – to tax havens such as Bermuda or the Cayman Islands. Like the scandals at Enron, WorldCom and Arthur Andersen, these fake offshore moves are part of a larger pattern of deception and lack of integrity in the corporate boardroom which has harmed the financial markets and shaken the confidence of investors.

According to the U.S. Treasury Department, “there has been a marked increase recently in the frequency, size, and profile of these offshore relocations, also known as ‘expatriations.’” Federal revenue losses due to corporate expatriation are projected to exceed \$2 billion over 10 years. While shirking their tax responsibility, expatriate companies also avoid accountability to investors by operating in secrecy, restricting shareholder rights, and insulating themselves from legal claims.

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On July 25, 2002, California Treasurer Phil Angelides announced a new policy whereby the State Treasurer’s Office banned investments in, and business dealings with, expatriate U.S. companies. As a result of this policy – the first of its kind in the country – Ingersoll-Rand (ironically, the company that made the jackhammers used to build Mount Rushmore) was removed from the list of eligible investments by the State’s \$46 billion Pooled Money Investment Account.

The Treasurer also requested that the California Public Employees’ Retirement System and the California State Teachers’ Retirement System, on whose boards he serves, eliminate their holdings in, and cease doing business with, expatriate corporations. These public pension funds, the first and third largest in the country with over \$230 billion in assets, held \$752 million in investments in such expatriate companies as of June 30, 2002.

Since enactment of the policy, Treasurer Angelides has sought to enlist other state investment officers and pension fund officials in the effort to stem corporate expatriations. On August 12, 2002, at a meeting in New York hosted by Angelides, New York Comptroller Carl McCall and North Carolina Treasurer Richard Moore, public institutional investors from 14 states – representing over \$1 trillion in assets – condemned the practice of expatriation.

The drive against corporate expatriation is designed to help stem future sham relocations and to curb deceptive practices that undermine the faith of investors in the integrity and fairness of our financial system. It is one of a series of actions taken by the Treasurer to signal that major institutional investors should not do business with those who violate ethical standards that are the basis of a strong and functioning marketplace.

## Shareholder Rights Weakened By Expatriation \*

Right to:	U.S.	Bermuda
enforce civil liability provisions of U.S. or State securities laws	Yes	No
protect shareholders' interests	Yes	No
expect the duty of directors and officers is to shareholders	Yes	No
hold directors and officers accountable	Yes	No
bring class action and derivative lawsuits	Yes	No

\*partial list of shareholder rights affected by expatriation



# What's Wrong With Corporate Expatriation?

"Corporate expatriation, like the accounting scandals at Enron and WorldCom, is the kind of deceptive practice that has shaken the financial marketplace and cost families, taxpayers, and pensioners billions. We will use our clout as investors to let companies know that we will not tolerate this type of conduct."

Phil Angelides  
California State Treasurer



"...dozens of U.S. corporations have gone AWOL in their country's current war by buying a Bermuda corporate address – while never moving so much as a filing cabinet – just to avoid taxes on profits they earned here. ...When the going got tough, these corporate citizens got going to the tax havens where, in a time of war, they chose not to pay the U.S. taxes they owed, but still to have their factories, families and fortunes defended by U.S. marines."

Mark Shields  
Seattle Post Intelligencer  
July 1, 2002



"...Establishing offshore, tax-free corporate 'headquarters' that are often nothing more than mailboxes, is the most recent deception that's come to light since corporate accounting schemes have wreaked havoc on Wall Street and shaken Americans' faith in market activity. ...Entrusted with investing the public's money, Angelides is right to support only those companies that are good citizens. ....Pulling the purse strings on the companies that choose to act in bad faith is an appropriate, and responsible, action. It is language that they will understand."

Contra Costa Times editorial  
July 29, 2002



"Escaping taxes through a Bermuda deal is 'particularly inflammatory at a time when American workers and domestic companies are being asked to finance the war on terrorism with their tax dollars.'"

John Sweeney, President, AFL-CIO  
As reported in the New York Times  
July 26, 2002

## The Sacramento Bee

July 25, 2002

### Treasurer Seeks Tax-Shelter Blacklist

"Stepping up a campaign to use state investments as a force for corporate reform, California Treasurer Philip Angelides is moving to block state purchases of stocks and bonds from U.S. companies that hide their assets in foreign tax havens..."

## San Francisco Chronicle

July 26, 2002

### Treasurer to Halt Investing in 'Expatriate' Businesses

"Assailing a corporate tax-avoidance trend, state Treasurer Phil Angelides said Thursday that his office will no longer invest in U.S. companies that move to offshore tax havens..."

## The New York Times

July 27, 2002

### Pressure on Companies Using Tax Dodge

"Pressure on companies that acquire a Bermuda mailbox as part of a strategy to earn tax-free profits in the United States increased yesterday with the California state treasurer and the president of the top labor organization attacking the moves..."